Philly to ask Carl Icahn to keep Pep Boys local

Pep Boys' Allegheny Avenue headquarters (above) will stay open . . . for now. The auto chain, which began in West Philly in 1921, is known for its mascots, Manny, Moe and Jack (left), named for its co-founders. CLEM MURRAY / Staff Photographer

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Harold Epps, Mayor Kenney's commerce director, wants to persuade the new owner of Pep Boys - Manny Moe & Jack, the profit-challenged, 800-store auto-parts retailer and garage chain, to keep the company's headquarters and 500 managers and support workers in Philadelphia.

It's one in a long line of appeals that worried communities have made to billionaire investor Carl Icahn, who has forced restructuring, layoffs, and break-ups at Motorola, eBay, Gannett, and dozens of U.S. firms in recent years. Lately he has set his sights on Apple Computer, the most valuable company on the planet.
Icahn beat Japan's Bridgestone Corp. last month in a bidding war to win the right to buy 95-year-old Pep Boys for $1 billion. He has said he plans to combine Pep Boys with the suburban Atlanta-based AutoPlus chain he bought last summer, and eventually other stores, to form a slimmed-down, fast-growing digital-era retailer.

Where will he base his new team? "This is a big test for the new mayor," and for Gov. Wolf, says John Boyd, principal at Princeton corporate-headquarters consultant Boyd Co. Inc.

Boyd says Philadelphia, with its uncertain tax climate in the face of the state's unsettled budget, faces a fight if it is pitted against such business-friendly cities as Atlanta.

Kenney and his friends in state government "stand ready to assist Pep Boys to stay and grow in Philadelphia" by reviewing financial incentives, promises Epps, former chief executive at Philadelphia call center outsourcer PRWT Services Inc.

"The city did reach out, and we really appreciate it," Pep Boys general counsel Brian Zuckerman confirmed.

"Icahn's plan is to grow the company, not reduce it, and there are no plans to close the Philadelphia headquarters, or any stores, at this point," he said. "But it's early days."

Pep Boys managers have not yet talked to Icahn about how to combine the chains or who will be based where, Zuckerman says. "Once the sale closes in early February, we'll review it." Icahn's office had no comment.

"Icahn has a lot interest in aftermarket automotive parts, and there's a lot of things he could do" with Pep Boys, says Michael R. Odell, the firm's former CEO, now president of Eastern Auto Parts Warehouse in Langhorne. "We'll find out when he does it."

Icahn, a famous crusader for corporate cost-cutting - praised for chasing out high-paid executives, and vilified for freezing pension plans - will not likely need multiple headquarters for his new auto-parts empire.

The investor, who turns 80 in February, cut his teeth as a "corporate raider" pursuing TWA, U.S. Steel and Gulf + Western in the 1980s and '90s.

Executives have a way of exiting Icahn-acquired firms in a hurry. In December, mining giant Freeport-McMoRan's founder and chairman, James R. Moffett, and natural-gas exporter Cheniere Energy's chief executive, Charif Souki, quit less than six months after Icahn said he had bought into both firms and began questioning spending policies.

Freeport and Cheniere shares have tumbled amid the recent collapse in commodity prices. It's the kind of financial wreckage that creates buying opportunities for well-funded, long-term investors such as Icahn.
How good is Icahn's record? In November, his company told investors that shareholders who reinvested their Icahn Enterprises dividends since Jan. 1, 2000, had collected returns of more than 1,100 percent, nine times the total return of the Dow Jones Industrial Average stocks in those years and 10 times better than the S&P 500.

Icahn owns 91 percent of the 129 million shares. At $6 a share, he collected more than $700 million last year on dividends alone.

Yet Icahn Enterprises shares have fallen more than half since their 2014 high, to below $60 last week, as Icahn has plowed cash into money-losing, out-of-favor firms and commodity-intensive sectors, with little to show, so far.

Its better-performing properties lately include the Tropicana casino-hotels, which the company acquired from other Icahn investments funds in a 2010 bankruptcy reorganization.

Icahn Enterprises is unapologetic: Its goal is to buy cheap, endure losses, force changes, and sell high. "Unlike the individual investor, we have the wherewithal to purchase companies that we feel we can operate more effectively than incumbent management," Icahn said in the November filing.

Icahn is also an activist investor in high-flying Apple Computer, which he says ought to be using its billions in piled-up cash to buy back shares and drive its stock price still higher.

Don't count him out.